

HOUSING MARKET OUTLOOK

London CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Market at a Glance

- Average MLS® price to rise moderately as move-up buyers purchase at higher price points.
- Residential construction in the London Census Metropolitan Area (CMA) to increase slightly in 2012 as demand for both single-detached homes and apartments surpass last year.
- More employment opportunities, demographics, and a strengthening local economy will all contribute to an increase in housing demand.

Figure 1

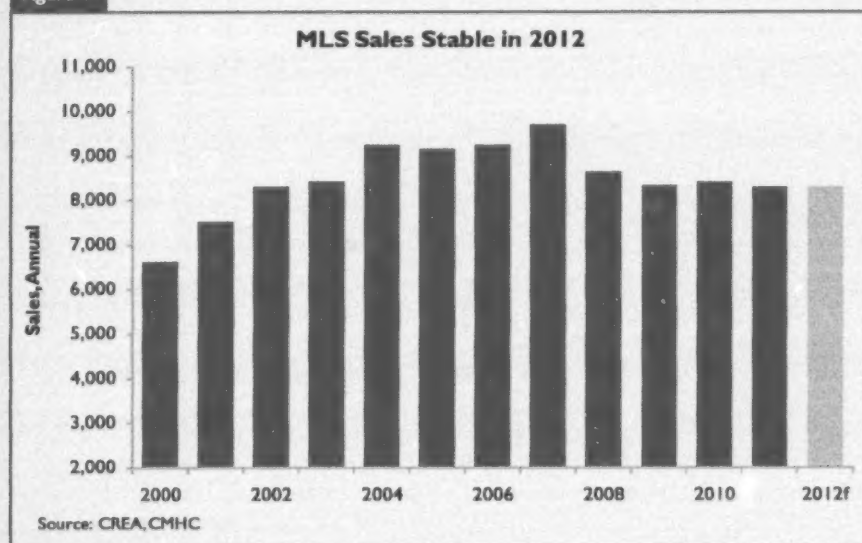


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*The forecasts included in this document are based on information available as of April 27, 2012.

Resale Market

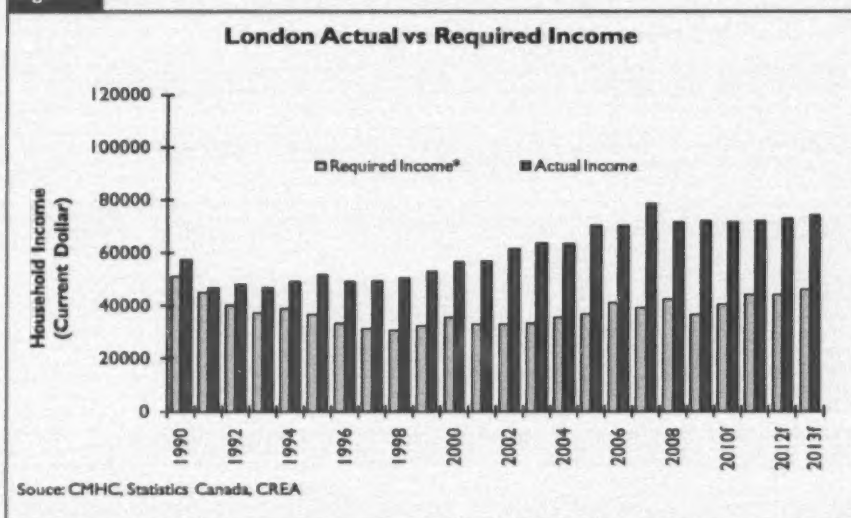
Sales stable in 2012

Demand for resale homes in London will be level in 2012 as move-up buyers replace a decline in first-time buyer activity. Supporting this market will be ongoing low borrowing rates, an improving job market and an increasing population. Keeping the markets in balance will be a sufficient supply of listings which will swell to a new record as repeat buyers take advantage of equity gains and the opportunity to find homes more suitable to their changing needs.

First quarter sales in 2012 rose as buyers headed to open houses, encouraged by positive local announcements about employment opportunities and a competitive lending environment. Within the City, ranch style homes showed the strongest price gains of over four per cent overall while in the North sub-market, the average price rose 13 per cent for the first four months year over year. One floor style homes will continue to be in demand as baby-boomers age and look for homes without stairs.

Condominium prices, both apartment and townhouse, dropped as first time buyers were less active. Average house prices have risen faster than incomes and the declining vacancy rate indicates that more renters are staying in their current accommodation for now. Expect another round of first-time buyer activity next spring as renters who are ready to make the jump to homeownership take advantage of a period of relative

Figure 2

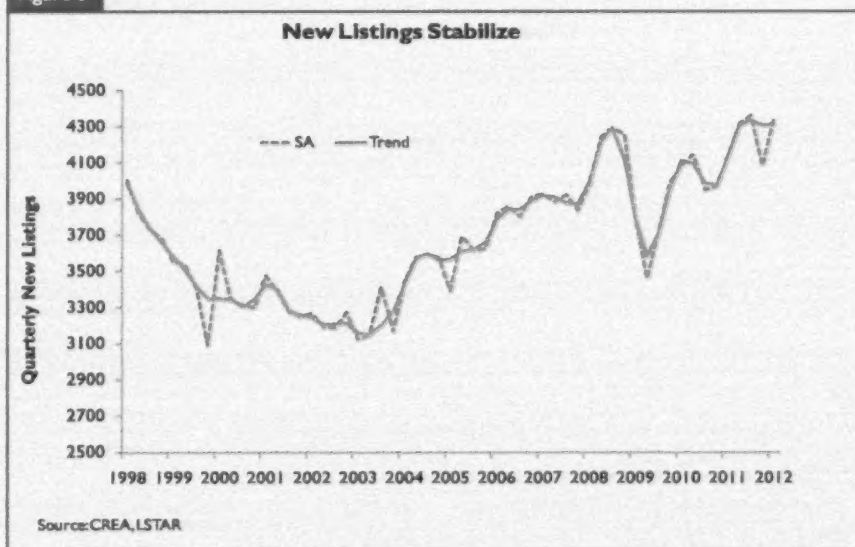


* Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

stability in the market. Buyer's incomes will be increasing at a slightly faster pace than the average price next year. The average price for a condominium will also begin to rise in 2013. The average price for

apartment condominiums will rise due to an increase in newer upper-end product as buyers from outside the area realize the value of local real estate relative to other metropolitan markets. Townhouse condominium

Figure 3



prices will rise at a slower pace as a growing number of first-time buyers will tighten the market for this affordable entry-level product

The overall average resale price in London will rise less than two per cent in 2012 due to the mix of sales. Lower condominium prices will put downward pressure on the average but this will be offset by stronger sales in the upper price ranges driven by move-up buyers who have built up substantial equity and have the resources to manage larger carrying costs.

New listings stabilize

Listings will peak in 2012 since there will be fewer first-time buyers, who absorb listings when they purchase, and more move-up buyers, who usually list their current home when they plan to purchase a different one. After peaking in the first quarter of 2012, listings will slowly trend down into 2013. Given the flat sales and a peak in new listings, market conditions will be less tight but the housing

market will remain in a balanced position.

New Home Market

Housing Starts Rise

Housing starts will continue on an upward trend in 2012 in the London CMA to just under the 2,000 unit mark before moving slightly lower in 2013. More employment opportunities, a growing population, and a strengthening local economy will all bolster demand this year.

Increased demand for single-detached homes will come from the growing segment of Londoners in the baby-boom age-group which is looking to the new home market to satisfy their housing needs. This is especially true of the growing segment of single-detached condominium homes which will continue to appear across the City as developers are able to acquire suitable locations. These homes offer the benefits of a single family home and the convenience of a condominium.

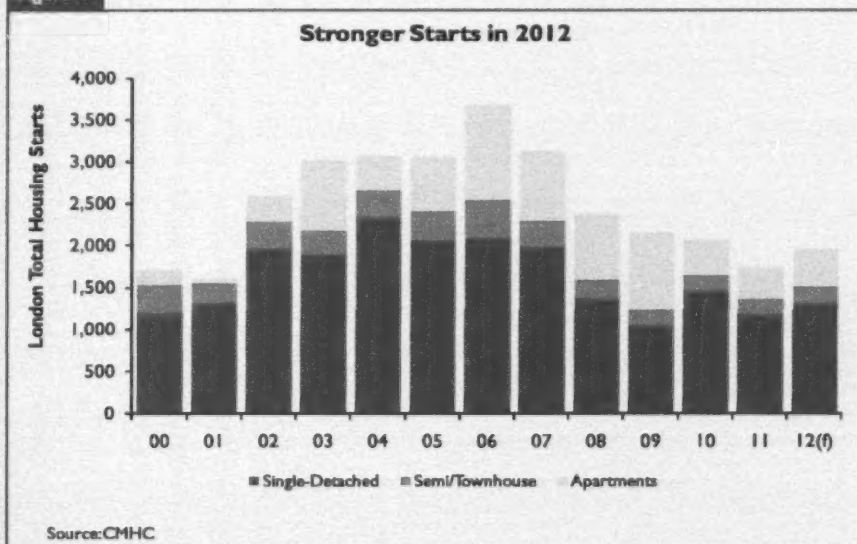
Single-detached construction will be focused in the north and south-west ends of the City in accordance with the City's long-term growth strategy. The share of homes sold for more than \$400,000 in the City of London jumped from less than one fifth in the first quarter of 2011 to more than one quarter of homes in the first quarter of 2012 as boomers were willing to spend on high-end upgrades. However lower prices in outer municipalities such as St. Thomas will mute the average price growth for the CMA in 2012 to less than two per cent.

Apartments keep going up

More apartments will be started in London this year for both the homeownership and rental markets in a variety of styles and price points. The City's Strategic Direction to increase high-density residential development downtown will go hand in hand with developers catering to empty-nesters and young professionals attracted to the amenities of core living. A new product for the London market will be four-plex condominiums which offer the benefits of apartment condominiums on a smaller scale. Developers will also be breaking ground in the north and south ends in accordance with the City's encouragement of compact urban planning.

Echo-boomers, will be an important source of demand for apartments over the next several years in both the ownership and rental segments of the market according to CMHC research which also found the average age of first-time buyers was just over 30 years old. This bodes well for London as the 30-34 year age group

Figure 4



will be expanding by 3.5 per cent in both 2012 and 2013. Employment for the larger 25-44 year age group has been expanding locally which will support demand for housing. Many of these echo-boomers prefer urban locations such as near London's Covent Market or in the more affordable up and coming Old East area of the City.

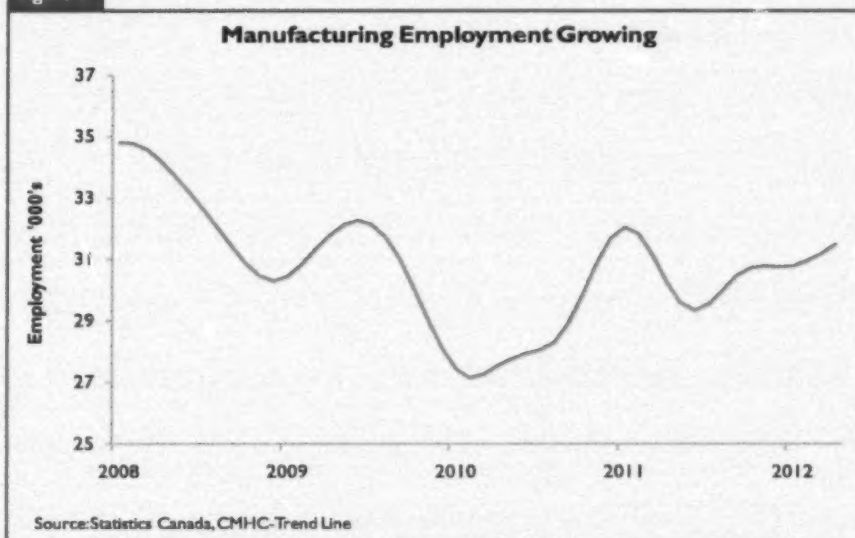
Local Economy

Employment growth returns

More people will find work in 2012 and 2013 in the London CMA as the local economy benefits from a strengthening U.S. economy and benefits from the efforts of the City to attract new businesses. Employment is already expanding in the transportation and auto parts sectors as demand rises for locally produced goods for export. This sector is forecast to increase provincially this year and next. London's labour force is also increasing, indicating people's renewed confidence in finding a job. Employment for both the 25-44 and 45-64 year age groups has recovered to where they were last spring, which will support the housing markets.

Population growth is a key component of housing demand and Canada had the fastest rate of growth of the G8 countries between 2006 and 2011. However, all parts of the country did not grow equally. Ontario grew by 5.7 per cent, the slowest growth for an intercensal period since 1981-1986. London's population grew by 3.7 per cent, down from over five

Figure 5



per cent in the previous period. The slower growth was mostly due to negative net interprovincial migration as people moved out west in search of employment opportunities. London has gained population from international migration. Both temporary residents from students attending post-secondary education and permanent residents are making London their new home. In 2011 the number of temporary foreign students present at year end set a new high for London at just over 5,000. More and more immigrants are choosing London over larger metropolitan centres. Two of the factors making London attractive to newcomers include the city's more affordable housing choices and well established ethnic communities. London has a growing Latin American community of approximately 15,000¹.

Mortgage Rate Outlook

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

¹ www.immigration.london.ca

Forecast Summary London CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	8,314	8,389	8,272	8,300	0.3	8,250	-0.6
MLS® New Listings	14,795	16,171	16,947	17,500	3.3	16,200	-7.4
MLS® Average Price (\$)	214,510	228,114	233,731	237,000	1.4	240,000	1.3
New Home Market							
Starts:							
Single-Detached	1,056	1,461	1,176	1,300	10.5	1,250	-3.8
Multiples	1,112	618	572	662	15.7	612	-7.6
Semi-Detached	12	20	12	12	0.0	12	0.0
Row/Townhouse	169	163	177	200	13.0	200	0.0
Apartments	931	435	383	450	17.5	400	-11.1
Starts - Total	2,168	2,079	1,748	1,962	12.2	1,862	-5.1
Average Price (\$):							
Single-Detached	341,898	347,634	347,430	352,000	1.3	358,000	1.7
Median Price (\$):							
Single-Detached	307,900	320,000	325,000	329,000	1.2	335,000	1.8
New Housing Price Index (% chg.)	1.4	2.7	0.4	1.0	-	1.5	-
Rental Market							
October Vacancy Rate (%)	5.0	5.0	3.8	3.4	-0.4	3.4	0.0
Two-bedroom Average Rent (October) (\$)	896	869	881	910	-	930	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	242,800	244,900	242,900	244,500	0.7	247,000	1.0
Employment Growth (%)	-3.5	0.9	-0.8	0.7	-	1.0	-
Unemployment rate (%)	9.9	8.6	9.0	8.4	-	8.0	-
Net Migration	1,717	2,836	2,606	2,700	3.6	2,800	3.7

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM).

London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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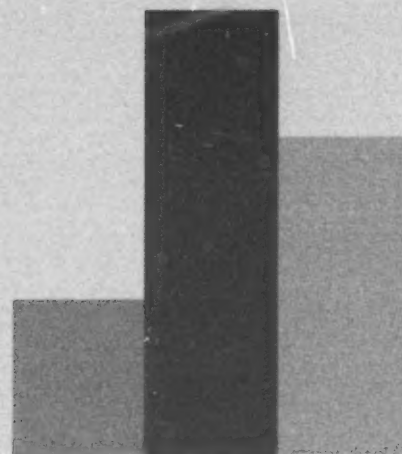
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